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Covid-19

# Social Policy Response Series

Abelardo Baldizón

## **Nicaragua's Social Policy Response to Covid-19: Business as Usual at All Costs**



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of Social Policy CRC 1342



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**Abelardo Baldizón**

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# Nicaragua's Social Policy Response to Covid-19: Business as Usual at All Costs

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Abelardo Baldizón \*

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## ABSTRACT

The social policy response of the Nicaraguan government to the Covid-19 pandemic has been negligible. No significant social policy measures were adopted to alleviate the negative effects that this health crisis has on the general population. No quarantine or state of emergency was declared. The wearing of face masks in public was not made mandatory. On the contrary, the government actively promoted mass gatherings of political supporters and state employees. It even went so far as to prohibit the medical personnel of public hospitals the use of masks. This was severally criticized by the Nicaraguan opposition, media outlets and international human rights organizations. It was seen as a strategy that favored the political and economic interests of the governing party over the lives of the Nicaraguan people. To explain why this course of action was taken, this report looks at the country's current economic and political conditions. The extremely limited response to the Covid-19 pandemic is seen as the attempt of the ruling party to reduce, as much as possible, the laming or standstill of the Nicaraguan economy, in order to avoid its negative political repercussions.

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## INTRODUCTION

The main characteristic of the Nicaraguan government's response to the Covid-19 pandemic has been its refusal to adopt any drastic measures to counteract its negative social and economic effects.<sup>1</sup> Thus, the government of President Daniel Ortega, and of his vice president and wife Rosario Murillo, has been unwilling to adopt drastic public health measures, such as a national quarantine or to order the compulsory usage of masks in public. Since the threat of the Covid-19 virus began to spread around the planet, the main policy of the Nicaraguan government has been to deny the danger and consequences of this global pandemic. This attitude of denial has gone so far as to promote mass gatherings that openly mock the danger of the virus. Therefore, on Saturday 14 March 2020, the governing party the Sandinista National Liberation Front (*Frente Sandinista de Liberación Nacional*, FSLN) carried out a parade in the center of the capital, Managua, called "Love in the time of Covid-19". The opposition strongly criticized the government's course of action. The first measures adopted by the Ortega administration were to implement both at border crossings and at the international airport in Managua an "epidemiological surveillance". It declared that "forcing public workers and their families to march is an act of irresponsibility and certainly exposes them to danger" (Silva & Gigova, 2020). The Americas director at Human Rights Watch, José Miguel Vivanco, also criticized the handling of the Covid-19 pandemic crisis. Vivanco stated that the government's reaction was a reckless failure "to put in place the basic preventive measures recommended by public health experts" (Human Rights Watch, 2020).

Over a month after the first positive case of Covid-19 was identified, at the end of May 2020, the Ortega administration decided to publish a document explaining its strategy. It declared the Covid-19 pandemic to be

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1 In 2019, Nicaragua's GDP per capita was USD 1,763 (The World Bank, 2021b) and its population 6.5 million (The World Bank, 2021b).

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“under control”, because since the beginning of the current government’s term in office in 2007 the Nicaraguan healthcare system had been strengthened (Secretaria Privada para Políticas Nacionales, 2020, p. 20). Further, the text argued that “drastic shutdown measures would have a debilitating effect on the economy, indeed, could be catastrophic. Rather, the government must have policies to address the pandemic and lay the groundwork for economic recovery at the same time” (Secretaria Privada para Políticas Nacionales, 2020, p. 44).

## POLITICAL AND SOCIOECONOMIC CONTEXT

Before the Covid-19 pandemic, Nicaragua was already in a serious political and economic crisis, which started in April 2018. The spark that produced it was a proposed reform of the Nicaraguan Social Security Institute known as INSS. The reforms raised workers’ contributions from 6.25% to 7% (Rojas-Rondón, 2018). At the same time, pensioners suffered a 5% reduction to their healthcare benefits (Diario, 2018). The immediate popular reaction to these measures were protests in the capital Managua and in the city of León. These manifestations of discontent were brutally repressed by the police and gangs of government supporters. After five days of protests, 45 people had died. This death toll quickly changed the nature of the protests from being against the reforms of the social security system to demanding the president’s resignation (Robles, 2018). The social unrest and protests continued through the year. By September the death toll had risen to 300 people and protests were declared illegal (La Republica, 2019). Since then the country has been in a serious human rights crisis and under increasingly authoritarian rule. As was stated in the latest report of The Office of the High Commissioner for Human Rights on the situation of human rights in Nicaragua “the persistence of the crisis remains rooted in the fragility of institutions and the rule of law, which have been progressively eroded over the years while human rights violations perpetrated in 2018 remain unpunished and civic space has been further restricted” (United Nations High Commissioner for Human Rights, 2021, p. 2).

This political crisis also had an important impact on the country’s economy. In 2018 Nicaragua experienced a 4% economic contraction and in 2019 this pattern continued with a 3.9% drop (The World Bank, 2020). The GDP per capita also fell from USD 2,159 in 2017 to USD 1,913 in 2019 (The World Bank, 2021a). At the same time, the informality of the Nicaraguan economy grew by 5.1%. In 2017 the size of the informal sector was 70.4%. Two years later this figure had grown to 75.5% (FIDEG, 2020, p. 29). These numbers reflect the economic recession caused by the political crisis of 2018, a situation that has also deteriorated the general welfare of the Nicaraguan people. In the period 2017–2019 general poverty went up by 3.2 percentage points from 41.2% to 44.4%. At the same time, extreme poverty increased by 0.5 percentage point; it went from 8.4% in 2017 to 8.9% in 2019 (FIDEG, 2020, p. 10). In turn, inequality appears to have remained unchanged with a Gini coefficient of 0.33 in 2017 and 2019. However, this aggregate figure is put into perspective if one looks at the consumption of the least wealthy quintile and the most wealthy quintile. In the case of the bottom 20%, in 2017 their consumption capability was 8% of total consumption. In 2019, this went down by 0.4 percentage points to 7.6%. Simultaneously, the share of total consumption of the richest 20% diminished by 0.6 percentage points. It went from 38.6% in 2017 to 38% in 2019 (FIDEG, 2020, p. 14). This suggests that the consumption capability of the less wealthy in Nicaragua was hit much harder, in comparison to the capacity of the upper 20%.

Likewise, the Covid-19 pandemic is expected to have a negative impact on the already precarious financial situation of the Nicaraguan Institute of Social Security (INSS), which lost 150,000 contributors in 2019 because of the rise in the unemployment rate that followed the political instability and subsequent economic shock of 2018 (The World Bank, 2020a). The INSS is the most important social program in Nicaragua, after public schooling and the public healthcare system that offers universal healthcare under very precarious conditions. Most public hospital and healthcare centers in Nicaragua have a nearly rotten infrastructure and cannot offer patients sufficient medical supplies. In 2015, there were only 9.3 hospital beds per 10,000 inhabitants (WHO, 2020) and just 160 ventilators for 6.546 million people. As one can see, the capability of the Nicaraguan healthcare system to deal with a sudden and sharp rise in patients is extremely poor or non-existent.

One of the few income sources that has helped Nicaraguan households through this economic crisis are the remittances from family members living in the United States, Costa Rica or Europe. In the third quarter of 2017, USD 355.6 million were sent to Nicaragua (BCN, 2017, p. 1) and in the same quarter of 2020 this figure increased to USD 482.1 million (BCN, 2020, p. 2); which demonstrates that the global economic downturn provoked by the Covid-19 pandemic did not have the expected negative effect on them. This would have had

dramatic repercussion on the well-being of most Nicaraguans. Remittances received from abroad are crucial to assure survival in Nicaragua. They are the central part of the social safety net on which the well-being of most Nicaraguans depends (Martínez Franzoni, et al., 2010, p. 1). They also revealed how crucial family ties are in generating the income and the care that neither the economy nor the state provides. Because of this limited role of the state in providing services like education and healthcare and the importance the family has in assuring people's welfare, the Nicaraguan welfare regime has been considered as "exclusionary familialistic" (Martínez Franzoni, et al., 2010, p. 2). The regime is based on a "division of responsibility between the state, on one hand, and the family and community, on the other" and it is the families and especially women who carry the greater burden in assuring its functioning (Martínez Franzoni, et al., 2010, p. 2).

## NICARAGUA'S ABSENT PUBLIC HEALTH RESPONSE

The refusal to take serious action against the spreading of the Covid-19 virus but rather to promote mass gatherings nationwide, led to fears of Nicaragua becoming the regional center of the pandemic. The country started to be seen as a serious threat to the public health situation of its neighboring countries. The president of neighboring Costa Rica expressed his concern "that an out-of-control epidemic in Nicaragua would have consequences for all of Central America" (SELSER, 2020). On March 16, Honduras, to the north of Nicaragua, closed its border (Nájar, 2020). Costa Rica to the south completely closed its air, marine and land borders on 19 March 2020 through executive order No 42238-MGP-S.<sup>2</sup> This was one day after vice president Rosario Murrillo officially announced the first positive case of Covid-19 in the country. On 1 April 2020, all international commercial airline flights to and from Managua were discontinued. By 2 April, Nicaragua was totally isolated from the world.

At the same time, it was the only country in Central America that did not declare a national quarantine and that radically refuses to do so. Schools were kept open and attendance was made mandatory for both pupils and teachers. This attitude, against implementing any serious policies to impede the spread of Covid-19, went so far as to prohibit doctors at all hospitals the use of masks (Medina Sánchez, 2020). At the end of May 2020, 700 physician signed a declaration stating that the government's strategy for fighting the pandemic was "unheard of and improbable" (Luna, 2020). The medical professionals also denounced the precarious conditions under which they had to fight the pandemic. The government's response was to dismiss more than 15 of them. Dozens of further medical staff members, faced with the dilemma of keeping their jobs or running the risk of being infected with Covid-19, decided to resign (Luna, 2020). The little improvement that was achieved in May 2020 to Nicaragua's hospital facilities was thanks to a donation from the United Nations Population Fund. From this donation, the Nicaraguan intensive care units received electrical hospital beds, patient transport stretchers, first aid trolleys, hospital clothing among other supplies (Areas Esquivel Norely, 2020). This negligent attitude of the Ortega administration was no surprise, already in February, before having the first Covid-19 case in the country, the Nicaraguan government had accepted the fact that hundreds of people in Nicaragua would die. As a document leaked from the Nicaraguan Ministry of Health revealed, it was estimated that by August 2020, 813 people would die and 32,500 were going to be infected (MINSA, 2020, p. 52).

Confronted with this government unwillingness to see the Covid-19 virus as a serious public health risk for Nicaraguans, which could kill thousands of people, the Nicaraguan population, the private sector and NGOs started to act on their own. Nearly one month after the first Covid-19 infection was officially announced, the mobility of the Nicaraguan population decreased by 56.6% (Coronaworld.info, 2020). Also an independent Covid-19 observatory (called *Observatorio Ciudadano Covid-19 Nicaragua*) was created by independent medical professionals, journalists, engineers, computer specialists and university students. This observatory regularly publishes their own Covid-19 statistics, which differ greatly from the official numbers. According to this independent observatory, by 10 February 2021 there have been 12,890 suspected cases and 2,961 suspected deaths. Covid-19 testing is restricted in Nicaragua and can only be done by the Ministry of Health (*Observatorio Ciudadano Covid-19 Nicaragua*, 2021). Therefore, *Observatorio Ciudadano Covid-19 Nicaragua* is only able to count suspected cases and not confirmed cases. However, its data are considered to be the most trustworthy. The statistics provided by the Nicaraguan government related to Covid-19 infections and deaths enjoy little credibility. According to a former employee of the Nicaraguan Ministry of Health, who was Director of

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2 For Costa Rica's social policy response to Covid-19, see Voorend and Alvadrado (2021).



Epistemological Surveillance, Dr. Álvaro Ramírez, the official numbers given in May 2020 did not match up with reality. The numbers were just too low, if one takes into account how few measures had been imposed. Also, at 32% the death rate until the end of May was the highest in the world. This fact suggests that the figures were being manipulated with the intention of artificially reducing the number of Covid-19 positive cases (Wallace, 2020).

## THE ECONOMIC AND SOCIAL IMPACT OF COVID-19

For the Nicaraguan government, both the state of international isolation and the self-quarantine measures adopted by more than half of the population were a serious blow to its strategy of protecting the economy against the negative effects of the global Covid-19 pandemic. The official policy was to impede the paralysis of the economy at any cost and by any means. For Ortega, the economy's paralysis was equal to the death of Nicaragua and detrimental to the government. In an address to the nation, he argued that "if everybody stops working, the country dies, and if the country dies, the people die" (El 19 Digital, 2020). Protecting the Nicaraguan economy against any negative effects produced by the Covid-19 pandemic was the government's main concern and it seems that it was its only concern. No specific economic policies to protect the economy or to counteract a drastic downturn were enacted. The main reason for this could be the already precarious condition of Nicaragua's public finances and the impossibility of receiving external funds from the financial markets, the IMF or the World Bank. Consequently, the government has been unable to immediately implement any economic policies that could stimulate the economy or diminish the negative repercussions of the Covid-19 pandemic.

According to the latest forecasts the World Bank makes for Nicaragua, in the year 2020 the economy is going to contract by 5.9% (The World Bank, 2020b). Likewise, data from the Nicaraguan Central Bank points to the same downwards trend. A report on economic activity in April registers the following negative numbers: "hotels and restaurants, -56.1 per percent; manufacturing, -24.6 percent; financial intermediation and related services, -17.5 percent; mining and quarrying, -17.3 percent; energy and water, -16.7 percent" (Banco Central de Nicaragua, 2020, p. 1). This made 2020 the third consecutive year the country experienced an economic downturn since the political crisis of April 2018. The well-known Nicaraguan think-tank FUNIDES has a more negative economic forecast for 2021. It anticipates a 5% reduction in Nicaragua's GDP (Fundación Nicaragüense para el Desarrollo Económico y Social, 2000, p. 3). The impact of this economic downturn has contributed to an increase in poverty and to a deterioration in the living conditions of most Nicaraguans. The World Bank calculates a rise in poverty of 15.1% in 2020, which means that 5.4% more Nicaraguans are going to be poor in comparison to 2017. So, Nicaragua will have 350,000 additional people living in poverty (The World Bank, 2020b). In other words, today Nicaragua has 23% more people living in poverty than it had in 2016.

## SOCIAL SPENDING IN THE 2021 ELECTORAL YEAR

As a reaction to this situation and the upcoming presidential elections, the Nicaraguan government is planning to increase its social spending by NIO 800 million in 2021, which amounts to 57.1% of the government's budget (Umaña, 2020).<sup>3</sup> According to the Minister of Finance and Public Credit, Ivan Acosta, 24.6% of the national budget will be spent on education, which also includes all public universities and the public healthcare system will receive over NIO 17 billion. Also NIO 4 million will be invested in the water supply and sanitation (15 Minutos, 2020).

Despite this positive outlook presented by the minister, the online publication *Expediente Público* dedicated to investigative journalism, presents a more negative and nuanced perspective on the Nicaraguan government's social spending for 2021. Based on official documents published by the office of the Attorney General of the Republic, the publication argues that in the national budget of 2021 there is a cut in housing subsidies, education and social protection programs. Housing subsidies suffered a reduction of 1.01%. They went from NIO 5.98 billion in 2020 to NIO 5.92 billion in 2021. Spending on education was also cut. In 2020 the education sector received NIO 20.15 billion and in 2021 only NIO 20.02 billion. The budget for social protection programs shrunk by 0.65%, from NIO 2.92 billion to NIO 2.64 billion (Expediente Público, 2021). This reduction means

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3 On 4 April 2021 the exchange rate was NIO 40.30 = EURO 1.

that fewer funds will be available for protecting children and teenagers, as well as reducing poverty through facilitating access to food resources and cheap credits.

The rise in spending in favor of the Nicaraguan healthcare system is probably the most significant impact the Covid-19 pandemic has had on Nicaragua's social spending. The probability of this budget allocation actually being spent is low, if one takes into account that for the year 2019 the total annual budget execution rate was 29.5% (ECLAC, 2019, p. 2). Thanks to loans obtained from the World Bank, the Inter-American Development Bank and the IMF, it is expected that there will be a reform of the current national budget and an increase in the funds assigned to the healthcare system by NIO 17.2 billion, which means a 7.24% rise in comparison to the amount spent in 2020. The granting of those loans was rather unexpected considering the US opposition to giving financial aid to the Nicaraguan government. The loans were granted for two reasons: the global health crisis produced by the Covid-19 pandemic and the devastation the hurricanes Iota and Eta caused in the last quarter of 2020 (Expediente Público, 2021). Other than that, the Nicaraguan government has not taken any significant action to counter the negative social or economic effects of the Covid-19 pandemic. This could also be one of the reasons that explains why the Nicaraguan president's popularity scores are so low. A CID Gallup poll in May 2020 registered a 71% negative opinion on how Ortega was leading the country. In September this number improved slightly to 67% (Álvarez, 2020).

## ■ EXPLAINING NICARAGUA'S ABSENT SOCIAL POLICY RESPONSE

The biggest concern of the Nicaraguan government in regard to the repercussions of the Covid-19 pandemic were related to fiscal income. Tax revenues experienced a decline in the second quarter of 2020. For example, revenue from value added tax (IVA in Spanish) went from NIO 6.41 billion in the first quarter to NIO 5.62 billion in the second quarter, which is a reduction of 12%. The total decrease in tax revenues from the first quarter to the second was NIO 16.23 billion, equal to a downturn of 24%. As the renowned Nicaraguan economist Nestor Avendaño has argued, the government's finances face an even more depressed domestic demand this year than in the previous years (Tórrez García, 2020). Faced with this drop in fiscal revenue, the Nicaraguan state has unleashed a fierce campaign to collect more taxes both at the national and local level. Just recently, COSEP (the biggest umbrella organization of the Nicaraguan private sector) protested that the government was putting pressure on "at least 300 companies from different economic sectors" to pay a 3% advance on their income taxes and another 800 companies already had done so (Romero, 2020).

For the Nicaraguan government, the decreasing fiscal revenues are a much greater concern than the number of deaths produced by the Covid-19 pandemic. Its hold on power does not derive from popular support. Elections in Nicaragua are not free, fair or competitive. Opposition candidates are constantly harassed and pursued by the police and members of the government party. They have been denied the right to organize and campaign freely around the country. The same happens to independent journalists. Independent media outlets have been seized by the police and their assets expropriated. According to Human Rights Watch a recent law passed by the National Assembly "threatens Nicaraguans' rights to run for office and vote in fair and free elections" (Human Rights Watch, 2020). As a consequence, there is no political accountability nor the fear to lose incumbency because of citizens' discontent with the current government's policies or its handling of the healthcare crisis produced by the Covid-19 pandemic. For the continuation in office of Ortega's government, it is much more relevant to maintain the support of its clientelistic structure. It is through this clientelistic structure that Ortega is capable of holding the Nicaraguan presidency, despite his low approval rating. This structure is made up of four elements: the army, the police, the party bureaucracy and the state bureaucracy. The two most important are the police and the army. Without their support, Ortega would not be in power right now. His awareness of this becomes clear by looking at the growth in the number of police officers. In 2014, the Nicaraguan police had a total of 13,549 officers, for 2020 the number was expected to rise to 16,866. This means that the police is expected to grow in 2020 by nearly 25% (Confidencial.com.ni, 2020).

Ortega has been able to ensure the support of the army in three ways: he has maintained the chief of the army for the last ten years, despite the unofficial rule of changing the general in charge every five years (Chamorro, 2020). In addition, several former high-ranking soldiers have been appointed as ministers. Two well-known examples are the Minister of Foreign Affairs and the Head of the Ministry of Transport and Infrastructure (MTI). Furthermore, he has allowed the enrichment of the military through the institution that manages the high-ranking

soldiers' retirement fund, called *Instituto de Prevención Social Militar* (IPSM) in Spanish. A newspaper investigation revealed that just two years after Ortega returned to the Presidency of Nicaragua, the wealth of the IPSM was twice the amount it had been seven years before (Bow, 2019). Aware of the importance that the army has for Ortega's hold on power and how crucial personal relations and money are in this relation, the US State Department has imposed sanctions on the commander of the Nicaraguan Army, General Julio César Avilés.

If one takes into account how significant the capability to distribute financial and material benefits is to securing the support of the state's coercive powers and for assuring the survival of the current Nicaraguan government, one can see that the economic deterioration Nicaragua has suffered because of the Covid-19 pandemic poses a threat in two ways: 1) it diminished support for the government among the population (as shown by a recent poll) and 2) it reduced the availability of resources necessary to maintain the loyalty of its supporters, i.e. employees of the state apparatus, party members, the police and the army. Without the support of the latter two, Ortega's chances of staying in power would be nil. That is why, despite the economic downturn of recent years and the decline in tax revenues, the budgets of both institutions have not been reduced.

If the Nicaraguan government had dictated comprehensive health measures, like a nationwide quarantine or a curfew, it would have severely reduced or stopped all economic activity for several months. The negative impact on the economy probably would have been much worse. The decline in fiscal revenues would have also been more severe than it already is. This would have diminished, even further, the capability of the Nicaraguan government to finance the state apparatus, the party bureaucracy, the police, and the army. According to the Nicaraguan political opposition, the government already had to cut current expenditure so that it can raise public investment and, because of this decision, jobs in the public sector will be lost (Olivares, 2020). For Ortega this means an equal loss in support, since having public employment in Nicaragua is often a payoff for political support. Consequently, it is assumed that the more people work in the public sector, the greater the number of people supporting this party in office. This helps to understand why the number of public employees has grown by more than 300% since Ortega took office in 2007. At the end of the term of former president Enrique Bolaños, the number of public employees was 39,140. Currently, according to a public statement of the vice president Rosario Murillo, the number of people working for the state in Nicaragua is now 170,000 (Cajina, 2020). This sharp rise illustrates how important it is for the government to protect the stability of tax revenues, since taxes are the main financial resource at its disposal to secure the loyalty of public employees and their families through employment in the government.

## CONCLUSION

In sum, the refusal of the current Nicaraguan government to take any drastic measures to stop the spread of Covid-19 and its unwillingness to implement any new social policies to counteract the negative economic and social effects of this pandemic are due to its need to maintain and, if possible, expand the state's financial resources. This is something that cannot be achieved by declaring a nationwide quarantine or a curfew. Likewise, the government has, at the moment, few incentives to pass any social policies that could put more pressure on its tight budget. At the same time, it cannot count on the help of any international financial institution, like the IMF or the World Bank, to finance any social policies and the budget deficit. The main reason for this is The Nicaragua Human Rights and Anticorruption Act of 2018 (NHRACA) approved by the US Congress in 2018, which states that all loans or any non-humanitarian help to Nicaragua should be blocked by the United States. The loans Nicaragua received at the end of 2020 were given only because of the humanitarian crisis produced by the Covid-19 pandemic and the hurricanes Eta and Iota. Under ordinary circumstance, these two global financial institutions would not have given any support to Nicaragua.

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## APPENDIX 1: SOCIAL POLICY DEVELOPMENTS IN RESPONSE TO COVID-19 BY POLICY AREA (NICARAGUA, JANUARY–SEPTEMBER 2020)

	Policy Area	Pensions	Healthcare	Long-term care and disability	Labor market	Education
(1)	Have there been any significant legislative reforms in the indicated policy area during the indicated time period?	No	No	No	No	No
(2)	If (1) yes, have any of these reforms been explicit responses to the Covid-19 pandemic?	N/A	N/A	N/A	N/A	N/A
(3)	If (2) yes, has there been significant regional variation in the implementation of these reforms?	N/A	N/A	N/A	N/A	N/A
(4)	Have subnational governments enacted any significant legislative reforms in the indicated policy area during the indicated time period?	N/A	N/A	N/A	N/A	Don't know
	Policy Area	Family benefits	Housing	Social assistance	Other*	
(1)	Have there been any significant legislative reforms in the indicated policy area during the indicated time period?	No	No	No	No	
(2)	If (1) yes, have any of these reforms been explicit responses to the Covid-19 pandemic?	N/A	N/A	N/A	N/A	
(3)	If (2) yes, has there been significant regional variation in the implementation of these reforms?	N/A	N/A	N/A	N/A	
(4)	Have subnational governments enacted any significant legislative reforms in the indicated policy area during the indicated time period?	N/A	N/A	N/A	N/A	

\* Legislative reforms in other policy areas explicitly aimed at social protection, e.g. food subsidies or tax cuts aimed at social protection.